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NEWS RELEASE

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FOR RELEASE November 18, 2015

Auditor of State Mary Mosiman today released a report on a special investigation of the Nutrition Department of the Northeast Hamilton Community School District (District) for the period August 1, 2013 through June 4, 2014. The special investigation was requested by District officials due to concerns identified with certain payments received from parents for student lunches collected by former Office Secretary, Debi Larson. Ms. Larson was placed on paid administrative leave on March 3, 2014 and she subsequently resigned from her position with the District on March 24, 2014.

Mosiman reported the special investigation identified \$755.15 of improper and unsupported credits to family lunch accounts and \$45.00 of undeposited collections. The \$692.10 of improper credits identified is comprised of \$451.60 posted to 7 different family lunch accounts and \$240.50 posted to Ms. Larson's family lunch account. The \$63.05 of unsupported credits identified is comprised of \$60.00 of cash payments and \$3.05 of voided transactions posted to Ms. Larson's family lunch account.

In addition to her responsibilities for the Nutrition Department, Ms. Larson also collected donations and payments related to various District activities, such as fundraisers, clothing sales, and concession sales. However, Mosiman reported it was not possible to determine if all collections for family lunch accounts, fundraisers, cheerleading clinics, flag football league registrations, athletic gate, and concession or clothing sales were properly deposited during the period reviewed because adequate records were not available.

The report includes recommendations to strengthen the District's internal controls and overall operations, such as improving segregation of duties, issuing individual receipts for family lunch account payments, and requiring sufficient supporting documentation for all fundraising activities. In addition, the report includes a recommendation to ensure an independent reconciliation is performed monthly between the District's accounting records and the family lunch account records.

Copies of the report have been filed with the Division of Criminal Investigation, the Hamilton County Attorney's Office, and the Attorney General's Office. A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/1430-4775-BE00.pdf>.

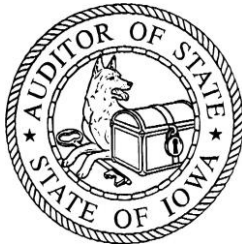
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**REPORT ON SPECIAL INVESTIGATION
OF THE
NUTRITION DEPARTMENT OF THE
NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

FOR THE PERIOD
AUGUST 1, 2013 THROUGH JUNE 4, 2014**

Table of Contents

	<u>Page</u>
Auditor of State's Report	3-4
Investigative Summary:	
Background Information	5-6
Detailed Findings	6-10
Recommended Control Procedures	11-12
Staff	13
Appendix:	
Copy of Debi Larson's Handwritten Note	<u>Appendix</u> 1 14



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Auditor of State's Report

To the Board of Education of the Northeast
Hamilton Community School District:

As a result of concerns regarding certain payments received from parents for family lunch accounts and at the request of District officials, we conducted a special investigation of the Nutrition Department of the Northeast Hamilton Community School District. We have applied certain tests and procedures to selected financial transactions of the District for the period August 1, 2013 through June 4, 2014. Based on discussions with District officials and Department personnel and a review of relevant information, we performed the following procedures:

- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Interviewed District officials, coaches, and activity sponsors to obtain explanations for certain procedures and transactions handled by the former Office Secretary, Debi Larson.
- (3) Reconciled the cash and check deposits in the District's Nutrition bank account to the cash and check collections recorded in the District's lunch account system to determine if all collections were properly recorded and deposited timely and intact.
- (4) Reviewed family lunch accounts to determine if payments were properly recorded.
- (5) Reviewed the federal nutrition reports submitted to the U.S. Department of Education and compared the total sales from meals served to the total collections recorded by the District to determine if the total sales were properly reported.
- (6) Reviewed the District's accounting system to determine if collections from fundraisers and certain athletic activities were properly recorded and compared the receipts to disbursements to determine the reasonableness of collections recorded.
- (7) Obtained and reviewed Ms. Larson's personal bank statements to identify the source of certain deposits and to determine whether any deposits included payments to the District.


These procedures identified \$755.15 of improper and unsupported credits to family lunch accounts and \$45.00 of undeposited collections. We are unable to determine if additional amounts were improperly recorded or if all collections for fundraisers and certain athletic activities were properly deposited during the period reviewed because adequate records were not available. Our detailed findings and recommendations are presented in the Investigative Summary of this report.

The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of the financial statements of the Northeast Hamilton Community School District, other matters might have come to our attention which would have been reported to you.

Copies of this report have been filed with the Division of Criminal Investigation, the Hamilton County Attorney's Office, and the Attorney General's Office.

We would like to acknowledge the assistance extended to us by personnel of the Northeast Hamilton Community School District during the course of our investigation.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 2, 2015

Report on Special Investigation of the
Nutrition Department of the
Northeast Hamilton Community School District

Investigative Summary

Background Information

The Northeast Hamilton Community School District (District) is located in Blairsburg, Iowa and serves approximately 181 students in Hamilton and Wright Counties. The District is governed by a 5 member Board which meets each month. The District shares a Business Manager with the Webster City Community School District.

Cash and checks are collected in the school office for meals served to students and teachers in the cafeteria. Debi Larson began working in the District's business office as an Office Secretary in August 2013 and resigned from her position on March 24, 2014. Prior to that, Ms. Larson was employed by the District as a Special Education Teacher's Aide. As the Office Secretary, Ms. Larson was responsible for:

- collecting family lunch account payments, recording the payments in the District's lunch account system, and posting the payments to the appropriate family lunch account,
- collecting fundraising proceeds, cheerleading clinic and flag football league registrations, and proceeds from District clothing sales,
- counting athletic gate and concessions sales, and
- preparing the deposits for all collections she received.

At the end of each month, Ms. Larson generated a Household Deposit Report summarizing the amount of cash and check collections by family lunch account. Although Ms. Larson prepared receipts, the receipts were batched and matched to the deposit amount rather than the Household Deposit Report. In addition, the receipts did not specify cash collections or check collections. Ms. Larson did not open the mail; however, the individual responsible for opening mail did not prepare an initial listing of payments received. The Business Manager made the deposits in the District's Nutrition account and recorded the activity in the District's accounting system. No independent reconciliations of the monthly Household Deposit Reports to the deposits or the monthly Household Deposit Reports to the family lunch accounts were performed.

Each year the District holds numerous fundraisers for the Activity Fund, which includes athletics, cheerleading, student council, yearbook, drama, and various class fundraisers. During the 2013-2014 school year, the District held the following fundraisers:

- a cheerleading clinic for elementary students,
- flag football for elementary students,
- a bake sale for the volleyball team, and
- a Pampered Chef sale for the weight room.

In addition, the Activity Fund receives money through gate and concession sales at sporting events, tickets sold for the school play, and various District merchandise sold throughout the school year. The merchandise sold throughout the year included homecoming football shirts, state football playoff shirts, and various other clothing with the District's sports team logo.

In February 2014, a parent called the Food Service Director regarding a \$150.00 cash payment which had not been posted to his child's lunch account. Because Ms. Larson was absent, the Food Service Director and the School Board Secretary researched the individual's concern. As a

result, they determined a receipt had not been prepared for all family lunch account collections, and not all family lunch account collections were properly posted to the District's lunch account system. In addition, they were concerned the irregularities identified could extend back to the beginning of the school year.

On March 3, 2014, the Food Service Director, the School Board Secretary, and the Elementary Principal held a conference call with the Business Manager to discuss the concerns identified. During the call, Ms. Larson entered the office they were in and confronted them about the subject of their conference call. The Elementary Principal informed Ms. Larson they would meet with her when they were done. At the conclusion of the conference call, Ms. Larson was placed on paid administrative leave and her access to the District's accounting software was restricted to parent access to her family lunch account. According to District officials, prior to leaving on March 3, Ms. Larson spoke with the Elementary Principal and the School Board Secretary and apologized. According to District officials, she stated, "If I made a mistake, let me fix it. Give me a second chance. I want to keep my job. How much do I owe? I will make it right."

On March 4, 2014, District personnel contacted the District's attorney who instructed them to contact the Office of Auditor of State. On March 5, 2014, the former Superintendent notified the Office of Auditor of State concerns had been identified regarding the School Nutrition Department.

Subsequent to Ms. Larson's resignation, an elementary teacher, who was a friend of Ms. Larson, retrieved Ms. Larson's personal belongings from her desk in the District office. Shortly thereafter, Ms. Larson had one of her children deliver a handwritten note to the District office, along with \$60.00 in cash and 2 checks for \$17.00 and \$178.00. According to the note from Ms. Larson, the cash and the \$17.00 check were family lunch account collections and the \$178.00 check was "to cover anything that may not have been in there." Although both checks were written by Ms. Larson, the \$17.00 check was dated November 25, 2013 but had never been deposited.

In addition, the note referenced a \$38.00 check which, according to the note, was not intended to be a lunch check. Although a \$38.00 credit is posted to Ms. Larson's family lunch account, a \$38.00 check from Ms. Larson was not deposited to any of the District's bank accounts. We identified a \$38.00 check deposited to Ms. Larson's personal bank account from a family member which stated "Trojan Shirt" in the memo line; however, we were unable to determine if this check was intended for the District. A copy of the handwritten note is included in **Appendix 1**.

After receiving the note, District officials met with the elementary teacher and asked her if there was \$60.00 cash in Ms. Larson's desk drawer. According to District officials, the elementary teacher stated there was no cash in Ms. Larson's desk drawer at the time she gathered Ms. Larson's personal belongings. During fieldwork, we confirmed this with the elementary teacher.

As a result of the concerns identified, District officials requested the Office of Auditor of State review the Nutrition Department of the Northeast Hamilton Community School District. We performed the procedures detailed in the Auditor of State's report for the period August 1, 2013 through June 4, 2014.

Detailed Findings

These procedures identified \$755.15 of improper and unsupported credits to family lunch accounts and \$45.00 of undeposited collections. The \$692.10 of improper credits identified is comprised of \$451.60 posted to 7 different family lunch accounts and \$240.50 posted to Ms. Larson's family lunch account. The \$63.05 of unsupported credits identified is comprised of \$60.00 of cash payments and \$3.05 of voided transactions posted to Ms. Larson's family lunch account. We were unable to determine if additional amounts were improperly recorded or if all collections for fundraisers and certain athletic activities were properly deposited during the period reviewed because adequate records were not available. If sufficient records had been readily available, additional undeposited collections may have been identified. **Table 1** summarizes the

improper and unsupported credits and undeposited collections identified. A detailed explanation of each finding follows.

Table 1

Description	Improper	Unsupported	Total	Table/Page
Credits to family accounts	\$ 451.60	-	451.60	Table 2
Credits to Ms. Larson's family account	213.00	60.00	273.00	Tables 3/4
Adjustment to Ms. Larson's family account	27.50	-	27.50	Page 8
VOIDS posted to Ms. Larson's family account	-	3.05	3.05	Table 5
Total credits	692.10	63.05	755.15	
Undeposited collections	45.00	-	45.00	Page 9
Total	\$ 737.10	63.05	800.15	

IMPROPER AND UNSUPPORTED CREDITS

We reviewed all payments posted to the monthly Household Deposit Report and compared them to the payments posted to the family lunch accounts for the period August 1, 2013 through June 4, 2014. We also reviewed the bank statements for the District's Nutrition account, including deposit detail, and compared the payments deposited to the payments recorded in the District's lunch account system. Specifically, we compared the total cash and checks deposited per the bank statements to the cash and checks recorded in the District's lunch account system. As a result, we identified 11 payments totaling \$664.60 posted to the District's lunch account system which were not deposited to the District's Nutrition account during the period August 1, 2013 through February 28, 2014. The 11 payments were recorded as checks in the District's lunch account system.

Of the 11 checks identified, 7 were posted to family lunch accounts not related to Ms. Larson. Because sufficient supporting documentation was not available, we were unable to determine whether these checks had been collected and not deposited or whether these checks were never collected. **Table 2** summarizes the check number, the date the check was posted to the District's lunch account system, and the amount posted to the family lunch accounts for 7 of the 11 checks identified. The \$451.60 identified is included in **Table 1** as improper credits to family lunch accounts.

Table 2

Account	Check Number	Date Posted	Amount
Family A	3963	08/15/13	\$ 40.00
Family B	1761	08/26/13	40.00
Family C	4956	08/26/13	100.00
Family D	9088	08/26/13	100.00
Family E	1129	09/06/13	31.60
Family F	5386	09/06/13	100.00
Family G	1042	11/27/13	40.00
Total			<u>\$ 451.60</u>

Ms. Larson had 4 students in the District during the 2013-2014 school year. The remaining 4 checks identified were posted to Ms. Larson's family lunch account. Because sufficient supporting documentation was not available, we are unable to determine whether these checks had been collected and not deposited or whether these checks were never collected. We determined all checks issued to the District for Ms. Larson's family lunch account subsequent to

her resignation were properly posted and deposited to the District's bank account. **Table 3** summarizes the check number, the date the check was posted to the District's lunch account system, and the amount posted to Ms. Larson's family lunch account. The \$213.00 identified is included in **Table 1** as improper credits to Ms. Larson's family lunch account.

Table 3		
Check Number	Date Posted	Amount
11233	09/11/13	\$ 38.00
8023	10/11/13	75.00
8211	11/14/13	40.00
8088	01/03/14	60.00
Total		<u>\$ 213.00</u>

In addition, we identified 3 credits totaling \$60.00 posted to Ms. Larson's family lunch account, which were recorded as cash payments. However, because sufficient supporting documentation was not available, we are unable to determine whether the payments were received and deposited to the District's Nutrition account. Because Ms. Larson was responsible for posting all collections to the District's lunch account system, she would have been able to record collections to her family lunch account which were not deposited to the District's Nutrition account. As a result, the \$60.00 of cash payments identified are considered unsupported credits to Ms. Larson's family lunch account. **Table 4** summarizes the date the cash payments were posted to the District's lunch account system and the amounts posted. The \$60.00 identified is included in **Table 1** as unsupported credits to Ms. Larson's family lunch account.

Table 4	
Date Posted	Amount
08/14/13	\$ 10.00
08/14/13	25.00
01/17/14	25.00
Total	<u>\$ 60.00</u>

During our review of Ms. Larson's family lunch account, we also identified an adjustment of \$27.50 posted on September 10, 2013. There was no documentation available to support the adjustment. In addition, District officials stated there would be no reason for this adjustment. As a result, the \$27.50 adjustment is considered an improper credit to Ms. Larson's family lunch account and is included in **Table 1** as an improper adjustment.

We identified 2 voids posted to Ms. Larson's family lunch account totaling \$3.05. However, because sufficient supporting documentation was not available, we are unable to determine the propriety of the voids identified. As a result, the \$3.05 of voids identified are considered unsupported credits to Ms. Larson's family lunch account. **Table 5** summarizes the date of the voids and the amount posted to Ms. Larson's family lunch account. The \$3.05 identified is included in **Table 1** as unsupported voids posted to Ms. Larson's family lunch account.

Table 5	
Date of Void	Amount
10/15/13	\$ 2.65
10/15/13	0.40
Total	<u>\$ 3.05</u>

ACTIVITY FUND

As previously stated, the District held numerous fundraisers for the Activity Fund. The Activity Fund also receives money through gate and concession sales at athletic events and tickets sold for the school play. Ms. Larson assisted with the collection process for various fundraisers, as well as athletic gate and concession sales.

According to District officials, although volunteers were instructed to count the number of tickets sold at the athletic gates and the products sold in the concession stands, this was rarely done. In addition, a cash count was not performed before or after an athletic event for either the gate collections or the drawers from the concession stands. Limited supporting documentation was maintained for these activities; however, the District's records did not clearly identify the amount collected or who it was collected from. As a result, we were unable to determine if all collections were properly deposited.

Every year, the cheerleading squad holds a clinic for elementary students prior to a home basketball game. The participants then perform a routine at that evening's game. For the 2013-2014 school year, the cost of the clinic was \$15.00 per child, which included a t-shirt and pom-poms. Limited supporting documentation was maintained. We were able to determine the number of t-shirts purchased and identify related collections on 3 separate receipts. However, the roster sheet for the clinic was incomplete. In addition, the cash documented as collected on a receipt is not divisible by \$15.00, which was the cost of the clinic. District officials were unable to provide an explanation for the discrepancy. Because supporting documentation for the collections was not sufficient, we are unable to determine if all collections were properly deposited.

According to District officials, a flag football league was held on school grounds. Although the District purchased the t-shirts, the league was supervised by parents from the community. The cost of participation was \$10.00 per child, including a t-shirt. We were able to determine the number of t-shirts purchased; however, no league rosters or sign-up sheets were maintained. In addition, the District's records did not clearly identify collections from the league or who collections were received from. As a result, we were unable to determine if all collections were properly deposited. During the review of Ms. Larson's personal bank statements, we identified a check in the amount of \$10.00 issued by a family within the District which had no payee. However, the memo line of the check stated "{Student Name} Football." Because of the timing and amount of the check and the notation in the memo line, the check appears to be for registration for the flag football league. As a result, this check should have been deposited to a District bank account and not Ms. Larson's personal bank account.

We also identified a check in the amount of \$35.00 issued by a family within the District to Ms. Larson with nothing noted in the memo line. According to Ms. Larson, this check was payment for flag football registrations, as well as additional flag football t-shirts. As a result, this check should have been deposited to a District bank account and not Ms. Larson's personal bank account. We did not identify any subsequent payments issued to the District by Ms. Larson for either check identified. As a result, the total of \$45.00 is included in **Table 1** as undeposited collections.

Throughout the school year, various other sports and activities held fundraisers and sold t-shirts and jackets. During the fall of 2013, we identified multiple orders for District merchandise, such as homecoming shirts, athletic warm-ups, and state football playoff shirts. Although we were able to locate several receipts documenting funds collected, no support was maintained to document the number of items sold. As a result, we were unable to determine if all collections were properly deposited.

OTHER ADMINISTRATIVE ISSUES

On a monthly basis, the Food Service Director submits a report to the U.S. Department of Education (USDE) detailing the number of meals served to each adult, elementary student, and middle school/high school student. For the period August 1, 2013 through February 28, 2014, we calculated total lunch sales based on the number of meals served reported to the USDE and attempted to compare the calculated total to total family lunch account collections recorded in the District's lunch account system, taking into consideration any family lunch account balances. However, we were unable to rely on the reconciliation because sufficient supporting documentation was not available and discrepancies were identified with the District's lunch account system.

In addition, during our reconciliation of cash and checks deposited to the District's Nutrition account to the cash and checks recorded in the District's lunch account system, we identified the following discrepancies:

- 31 payments totaling \$2,916.45 posted as cash payments in the District's lunch account system were check payments deposited to the District's Nutrition account,
- 10 checks totaling \$771.05 deposited in the District's Nutrition account appear to be for family lunch accounts but had not been posted to the District's lunch account system,
- 6 checks totaling \$1,137.08 were properly deposited in the District's Nutrition account but had no corresponding family lunch account,
- 4 checks deposited in the District's Nutrition account on August 26, 2013 were not posted to the District's lunch account system until September 6, 2013,
- 3 checks deposited to the District's Nutrition account included \$250.00 for other District fees, such as student registration,
- a \$150.00 check was deposited; however, only \$100.00 was posted to the family lunch account,
- a \$40.00 payment documented on a student's registration form was not posted to the family lunch account,
- a \$40.00 check posted to the wrong family lunch account, and
- several family lunch accounts, including Ms. Larson's family lunch account, which consistently carried a negative account balance from month to month.

Because the corresponding collections were properly deposited, none of the discrepancies identified are included in **Table 1**.

Recommended Control Procedures

As part of our investigation, we reviewed the procedures used by the Northeast Hamilton Community School District's Nutrition Department to perform bank reconciliations and process receipts. An important aspect of internal control is to establish procedures which provide accountability for assets susceptible to loss from errors and irregularities. These procedures provide the actions of one individual will act as a check on those of another and provide a level of assurance errors or irregularities will be identified within a reasonable time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen the District's internal controls.

- A. Segregation of Duties – An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The former Office Secretary had control over each of the following areas.
- (1) Receipts – collecting, posting to the District's lunch account system and preparing deposits.
 - (2) Disbursements – preparing purchase orders and receiving goods and services.
 - (3) Computer system – performing all data input and output into the District's lunch account system.

No one reviewed the activity recorded by the former Office Secretary, including entries and adjustments to her family lunch account in the District's lunch account system.

Recommendation – We realize segregation of duties is difficult with a limited number of individuals involved. However, the duties within each function listed above should be segregated among available personnel, including elected officials.

In addition, documentation for adjustments to family lunch accounts should be maintained. The adjustments should be reviewed and approved by someone independent of all other collection and recording duties. In addition, if the individual responsible for maintaining the District's lunch account system has a family lunch account within the system, an independent party should periodically review all activity in that account.

- B. Lunch Account Collections – Pre-numbered receipts are not issued for each family lunch account collection by the District. In addition, an initial listing of collections received through the mail is not prepared.

Recommendation – Pre-numbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of receipts. An initial listing of collections should be prepared and compared to the bank deposit and the District's lunch account system by an independent person and the review should be documented by the signature or initials of the reviewer and the date of the review.

- C. Reconciliations of Lunch Account Collections – Family lunch account collections recorded in the District's lunch account system were not reconciled to the deposits recorded in the District's accounting system throughout the year.

When we attempted to reconcile collections recorded in the District's lunch account system to deposits recorded in the District's accounting system, we identified a number of differences.

Recommendation – Procedures should be established to reconcile the District's lunch account system to the District's accounting system on a routine basis. The Board or other independent person designated by the Board should review the reconciliations, document

the review by the signature or initials of the reviewer and the date of the review, and monitor deficit accounts.

In addition, District officials should ensure appropriate action is taken in a timely manner to correct any differences identified.

- D. Supporting Documentation – Supporting documentation for the Activity Fund was either not maintained or was incomplete. As a result, we were unable to determine the amount of total collections or if all collections were properly deposited.

Recommendation – The District should ensure sufficient supporting documentation is maintained for all collections. An independent person should reconcile the amount deposited to total collections to ensure all collections are properly deposited.

Report on Special Investigation of the
Nutrition Department of the
Northeast Hamilton Community School District

Staff

This special investigation was performed by:

Annette K. Campbell, CPA, Director
Jennifer Campbell, CPA, Manager
Ryan T. Jelsma, Senior Auditor II
Matthew C. Hickenbottom, Staff Auditor
Jessica L. Russell, Staff Auditor

A handwritten signature in cursive script that reads "Tamera S. Kusian".

Tamera S. Kusian, CPA
Deputy Auditor of State

Report on Special Investigation of the
Nutrition Department of the
Northeast Hamilton Community School District

Copy of Debi Larson's Handwritten Note

We went through what
we thought we have
put into our lunch
account.

When I cleaned out
my office there was \$20
~~one~~ cash in there which
I'm assuming was for
lunch, and a check for
\$17 that said lunch.

I'm send those and a check
for \$178 to cover anything
that may not have been
in there. the \$30 was
not a lunch check I know
that and I did not
put that in there as far
as I know.

If this is not enough let me
know and if its too much
just add to Lunch account.

Thanks
Debi Larson